

## **INTERNAL MEMORANDUM**

**TO:** Phaedra Chrouzos  
Associate Administrator, OCSIT/18F

**FROM:** Aaron Snow  
Acting Executive Director, 18F

**CC:** Tom Sharpe  
Commissioner, FAS

Gerard Badorrek  
Chief Financial Officer

**DATE:** July 10, 2015

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**RE:** Labor Rate Change for New 18F Service Agreements

### **1.0 Purpose**

This memorandum establishes revised hourly labor rates for new 18F service agreements for the fourth quarter of fiscal year 2015.

### **2.0 Authority**

A memorandum of agreement executed June 1, 2015 by the Acting Administrator, the Acting Deputy Administrator, the Chief Financial Officer, the Chief Information Officer, the Commission of the Federal Acquisition Service, and the Associate Administrator of OCSIT/18F provides the following:

The OCFO will work in coordination with 18F during bi-annual rate reviews to assess program rate levels. During this process, the OCFO will provide recommendations on program rate structures. 18F is responsible for establishing its rates and ensuring that the rates are implemented with customer agencies.<sup>1</sup>

This memorandum establishes 18F's rates pursuant to this provision.

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<sup>1</sup> "Memorandum of Agreement Between the Federal Acquisition Service and the Office of Citizen Services, Innovative Technologies, and 18F", June 2015 (<https://drive.google.com/open?id=0B4JAQaDaWjUab2dPU2c3X0VSQWM>).

### **3.0 Background**

Upon recommendation from 18F and the Office of the Chief Financial Officer, the Deputy Administrator approved 18F's current rates on January 8, 2015.<sup>2</sup> These rates were premised upon the following primary assumptions:

1. That 18F's allocation of GSA-wide general management and administration (GM&A) expenses included services not consumed or projected to be consumed by 18F, and therefore, any costs associated with such services should be removed from 18F's GM&A allocation;
2. A total of 168.0 full-time equivalent (FTE) employees, distributed between General Schedule (GS) grades 11 - 15, working on billable projects 80.0% of the time, and a total of 13.0 FTE employees, distributed between General Schedule (GS) grades 11 - 15, working on billable projects 0.0% of the time; and
3. A single set of labor rates, dependent on grade level of the employee performing the work, would be charged for all 18F services regardless of the type of service being delivered.

As stated in the January 8th memorandum, 18F implemented the current rates at the beginning of Q2 for all clients.

### **4.0 Review of Current Rates**

In order to accurately revise 18F's rates and fees, the following projections will be used. These projections include both anticipated business volumes and projected expenses.

#### **4.1 Projected FY15 Revenue, Expenses and Results under Current Labor Rates**

18F projects \$15.2 million in revenue for fiscal year 2015 based on the: (1) effective hourly billing rate from the first three quarters of fiscal year 2015, derived from dividing hourly-based revenue by total hours billed for that period; (2) the number of billable hours projected to be worked in the fourth quarter of fiscal year 2015; (3) revenue from flat-fee Presidential Innovation Fellows agreements; (4) no change in labor rates; and (5) an assumption that 13 employees will be added (net) to the 18F team during the fourth quarter. The resulting projections are as follows:

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<sup>2</sup> Decision paper setting current 18F labor rates may be found here:  
<https://drive.google.com/a/gsa.gov/file/d/0B66nw3kJR0r8dUtpOVVoQkY3M2ZjSTdlbmNUMmYzSEpIUVR/view>.

**Table 1.** Projected Revenue, Expenses and Results under *Current* Labor Rates (FY15)

	FY15 Q1-Q3	FY15 Q4	Total
Effective Hourly Rate	\$152	\$152	<b>\$152</b>
Number of Billable Hours Worked	45,431	25,858	<b>71,289</b>
Total Hourly Revenue	\$6.9M	\$3.9M	<b>\$10.8M</b>
PIF Flat Fee Revenue	\$3.2M	\$1.1M	<b>\$4.3M</b>
<b>TOTAL, ALL REVENUE</b>	<b>\$10.2M</b>	<b>\$5.0M</b>	<b>\$15.2M</b>
<b>EXPENSE</b>	<b>\$19.9M</b>	<b>\$7.5M</b>	<b>\$27.4M</b>
<b>NET RESULT</b>	<b>\$-9.7M</b>	<b>\$-2.4M</b>	<b>\$-12.1M</b>

#### **4.2 Discussion of Current Rates**

These results demonstrate that the amount of revenue expected to be generated from 18F services in FY15 is insufficient to fully recover the cost of operations, as anticipated in the January 8th memorandum. Analysis reveals that that memorandum overestimated the number of billable hours logged and the rate of onboarding of new billable employees, and underestimated expenses.

In the months since that memorandum was issued, we have accumulated more data about our billable hours and total expenses, enabling more accurate projections. We have also significantly improved our recruitment and hiring operations and our ability to project future onboarding pace.

The rate adjustments described in this memorandum reflect those learnings and improvements. Combined with faster onboarding of new billable employees, these rate adjustments will enable 18F to be fully cost-recoverable by FY16 H2.

#### **5.0 Proposed Rates**

18F hereby establishes the following changes to the hourly rates it charges all *new* clients, effective Monday, July 6, 2015 (the first Monday after the beginning of the fiscal quarter):

**Table 4.** New Hourly Rates, by Employee Grade Level

Employee Grade Level	GS7	GS9	GS11	GS12	GS13	GS14	GS15
Current Hourly Rate	\$59	\$72	\$87	\$104	\$124	\$146	\$172
New Hourly Rate	\$146	\$152	\$160	\$169	\$180	\$191	\$205

Rates for agreements executed before July 6, 2015, will remain at current levels through the end of the 2015 fiscal year, as clients have based their project planning on the expectation of maintaining current rates through the end of the fiscal year. Rates will be reassessed in August 2015, and new rates will be applied to all projects beginning the first week of FY16.

These new rates are based on work completed by 18F and the GSA Office of the Chief Financial Officer in May 2015 to develop a multi-year financial projection for 18F.<sup>3</sup> In that projection, we anticipated increasing our rates at the beginning of FY 2016. We have decided instead to increase rates for new projects immediately, to enable (slightly) faster cost recovery.

### **5.1 Projected Revenue, Expenses and Results in FY15 and FY16 under New Labor Rates**

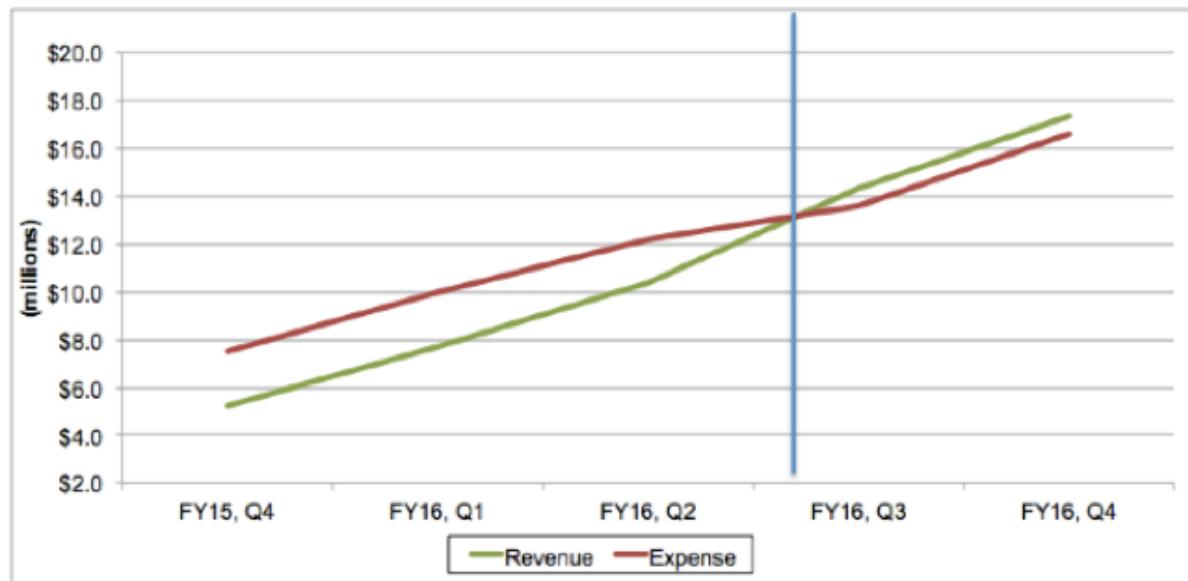
These new labor rates, combined with an anticipated second (smaller) rate increase in FY16 H2, allow us to achieve full cost recoverability by FY16 H2. See chart and table below.

Revenue projections are based on: (1) blended hourly billing rate from the first three quarters of fiscal year 2015, derived by dividing revenue by total hours billed for that period; (2) the number of billable hours projected to be worked in the fourth quarter of fiscal year 2015; (3) revenue from pre-existing, flat-fee Presidential Innovation Fellows agreements; (4) an assumption that 20% of all billable hours worked in the fourth quarter will be charged at the new, higher rates; and (5) an assumption that 13 employees will be added to the 18F team during the fourth quarter. While the impact of the increased rates will not be substantial in the fourth quarter of fiscal year 2015 (due to the maintenance of previous rates for ongoing projects until October 1, 2015), the new rates will have a significant impact over the subsequent quarters when combined with the following factors: (1) a projected increase in the number of hours billed by both continuing and net new staff; and (2) a projected additional 15% increase in labor rates in the third quarter of fiscal year 2016.

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<sup>3</sup> [https://docs.google.com/spreadsheets/d/1AsJ\\_N6Klt2DOiltfOy91fFGIQcRdv0jfG7ffDvjTblo/](https://docs.google.com/spreadsheets/d/1AsJ_N6Klt2DOiltfOy91fFGIQcRdv0jfG7ffDvjTblo/)

**Chart 1.** 18F Revenue and Expense Projections Under New Labor Rates (FY15-16)



**Table 6.** Projected Revenue, Expenses and Results Under New Labor Rates (FY15-16)

	FY15 Q4	FY16 Q1	FY16 Q2	FY16 Q3	FY16 Q4
Effective Hourly Rate	\$158	\$180	\$180	\$206	\$206
Number of Billable Hours Worked	25,858	42,817	51,817	63,014	77,375
Total Hourly Revenue	\$4.1M	\$ 7.7M	\$9.3M	\$13.0M	\$16.0M
Total Non-Hourly Revenue <sup>4</sup>	\$1.1M	-	\$1.1M	\$1.3M	\$1.3M
<b>TOTAL REVENUE</b>	<b>\$5.2M</b>	<b>\$7.7M</b>	<b>\$10.4M</b>	<b>\$14.3M</b>	<b>\$17.3M</b>
<b>EXPENSE</b>	<b>\$7.5M</b>	<b>\$10.0M</b>	<b>\$12.2M</b>	<b>\$13.6M</b>	<b>\$16.6M</b>
<b>NET RESULT</b>	<b>\$-2.3M</b>	<b>-\$2.3M</b>	<b>-\$1.9M</b>	<b>\$0.8M</b>	<b>\$0.7M</b>

<sup>4</sup> In FY15 Q4, "Non-Hourly Revenue" reflects fees collected from the existing PIF agreements which expire in September 2015. In FY16 Q2-Q4, "Non-Hourly Revenue" is generated from assisted acquisition fees.

## **5.2 Timeline for Future Rate Reviews**

Per above, the rates above are effective as of July 6, 2015 for all new clients. After this date, the following cadence will be implemented, to better align with the federal fiscal year:

<u>July - September:</u>	Review rates and determine modifications, if any
<u>First Monday after October 1:</u>	Effective date of new rates for <i>all</i> clients
<u>January - March:</u>	Review rates and determine modifications, if any
<u>First Monday after April 1:</u>	Effective date of new rates for <i>all</i> clients

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